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THE ECONOMIC AND SOCIAL CONSEQUENCES OF THE RECONSTRUCTION OF THE ECONOMY OF BAZ COUNTY IN HUNGARY

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Abstract

Structural changes in the region's economy caused fast growing unemployment in the early 1990's. Both government and local authorities made significant efforts to stop the economic decline and the social crisis. In 1995 an integrated decentralised programme was created for the county's economic development. The realisation of different actions in 8 sub-programmes initiated the development in the post-industrial economic structure and enhanced the attractiveness of the county for international investors. For the period of 2000-2006 was a new Regional Development Plan elaborated, which aims to end the backwardness of the county with forced economic development. The new priorities are innovation-oriented renewal with an orientation towards export and support of research and development activities, mainly in small and medium sized enterprises.

BAZ county - Its way to a traditional industrial region in Northern Hungary

BAZ county (Borsod-Abaúj-Zemplén) is one of the 19 administrative regional units in Hungary and with 7,248 km² territory it is the largest one in the country. It is located in the North-East of Hungary. The northern border of the county is also the borderline to the Republic of Slovakia. Nearly 730 thousand people live in the county so it is after Budapest and the region around the capital the most populated area of the country.

The region's most significant mineral resources are brown coal and lignite, which is why the industrial development began in the county in the early 19th century. In the state controlled economy after the Second World War state-owned enterprises made large investments in coal mining, steel industry and power production. Since the 1950's the region became one of the most important mining and heavy industry area of Hungary.

The economic performance at the beginning of the transitional period in the late 80's

After the early 1970's the government tried to increase the competitiveness of the region and to transform the industrial structure. With investments in chemical plants the government wanted to reach some new western markets but the increasing oil prices caused huge financial losses to the national economy.

The crisis of the region began at the beginning of the 1980's and was characterised by the lost competitiveness of the Hungarian economy, the declining productivity of labour and the increasing demand for imported products for production and for consumption, which resulted in large debt by foreign banks and international financial organisations.

The deformed economic structure of the region caused a deformed employment structure. With 7,4% share of the country's population, the BAZ county had 9,2% of the industry workers and 15,0% of the chemical industry workers worked in the beginning of the 1980's but only 4,4% of the machine industry workers. One of the factors of the region's vulnerability was in that employment disparity.

Another regional disparity factor was the geographical concentration of industrial production. 90% of the fixed assets of the industry was located at the end of the 1980's in the Sajó-river-valley. In 1988 above 60% of the population of the county lived in 4 industrial cities along the Sajó-river. The urbanisation process couldn't keep up with the industrial concentration so a lot of people commuted daily or weekly from their villages to the working places in the cities. The concentration of the industrial production caused also a concentration of environmental problems.

The transition toward a parliamentary democracy and market economy after 1989 deepened the crisis that characterised the late 1980's in Hungary. The establishment of the new political system required only 6 month but the restructuring of the economy has taken more then 12 years and maybe the finishing of the cultural changes in the mind of the people needs at least another generation.

Dramatic structural changes happened in the early 1990's in the region's economy:

- Main internal and eastern European markets collapsed in a short period
- Production and sales dropped dramatically
- Large state-owned enterprises became bankrupt and were disintegrated.

The main consequence of the restructuring process was the fast growing unemployment in the region. In 1992 the county had an unemployment rate of 18,6%, which was significantly higher than the same index for entire Hungary of 12,3%.

The employment figures in the coal mining and metallurgy industries were even worse. More than half of the approximately 20 thousand coal miners and 36 thousand metal workers lost their jobs in the period of 1982-1992. Lack of jobs became the core economic and social problem because the downfall of the heavy industry was not guided by a general reconstruction of the economy.

The decentralised model of crises management and regional development

In the first years of the 1990's both government and local authorities made significant efforts to stop the economic decline and the ever-worsening social crisis connected with the massive unemployment figures.

Some individual governmental measures failed and subsidies from the state development funds couldn't affect a change in the situation. It was necessary to create an integrated decentralised programme for the county's economic development.

According to a governmental decree an Integrated Strategic Development Programme was established beginning in 1994. The programme focused on main goals:

- Diversification of the economy
- Introduction of new activities and
- Improvement of the entrepreneurial infrastructure

The programme analysed the situation of the county with the SWOT-analysis. After making a list of strengths and weaknesses of the region, the opportunities and threats of the further developments were evaluated.

3 types of economic-geographic areas {1} could be determined with the SWOT-analysis:

Industrial crisis areas

This is the so-called Sajó-river valley, where about 60% of the population of the county lives. That crisis area has several environmental problems and there are no or only modest conditions to develop agriculture or forestry. The chemical centres of Kazincbarcika and Tiszaújváros are also in the Sajó-river valley but since the mid 90's there are fewer economical problems in these chemical areas.

Underdeveloped agricultural regions

This area is in the northern part of the county along the Hungarian-Slovakian border. A significant majority of the inhabitants commuted to the main industrial areas and lost their jobs in the transition process. Very high unemployment rates 30-60% characterised the area. Some demographic, ethnic, and educational problems make the situation even harder.

Industrial-agricultural areas

These areas are located in the Southern and Eastern part of the county. The area is characterised with an increasing number of small and medium-sized enterprises in the field of food processing, vine production e.g.

The long-term objective is the integration of the county's development in the transforming macro-economic environment:

To achieve this goal it is necessary to

- restructure the economy
- involve foreign and other external capital
- enhance human resources
- develop transport and telecommunication infrastructure
- increase environmental protection.

The Integrated Development Strategic Development Programme deals with the implementation of the programme on the basis of several aspects of integration.

Integration of different sectoral aspects of the development means that the programme doesn't designate any dominant branch.

Organisational integration means that the different decision-making level are integrated in the County Development Council where all the local, governmental and business authorities are represented.

The main point of the integration is the financial integration of the decision-making process. All governmental financial funds, EU PHARE programme funds and all other funds are integrated to a common fund, which provides the financial support for the decision-making process.

The integrated development programme can be divided into 8 sub-programmes, which consist a great number of different actions.

The main objectives of the sub-programmes are:

1. Development of business-services

One of the aims of this sub-programme was an evaluation of state-owned enterprises. The main task of the audit was the preparation of decisions about the liquidation or privatisation of these companies. The other aim of this sub-programme was to support small and medium sized enterprises with special information in order to create new jobs. Another field of the activities was providing market and resource information about the county to domestic and foreign investors. This information was provided with co-operation with the Chamber of Commerce and Industry and the Tourist Information office of the county.

2. Capital provision for business

As part of that sub-programme the capital of the Rákóczi Bank was increased. The Hungarian Bank for Investment and Development raised the capital of the Rákóczi Bank by 300 million HUF. The Bank operated only in the BAZ County and could provide special loans for the county's companies.

In the framework of this sub-programme micro-credits (less than 1 million HUF) were provided for several hundred small and medium sized enterprises.

Special investment incentives were also provided for investors in order to create new jobs. The investments were funnelled into regions of industrial decline in economically underdevelopment areas and for innovative investments (e.g. industrial parks)

3. Development of business infrastructure

The objective of the sub-programme was to create industrial sites with advanced business infrastructure for investors. The industrial parks are situated in two cities of the Sajó-river valley, Miskolc and Ózd. The cities are the headquarters of the steel industry of the county. The main activities of the industrial parks were modernisation of the existing infrastructure, reconstruction of the buildings and recultivation of the area. Some important international companies invested in the industrial park and tried to modify the industrial image of the cities.

The industrial parks co-operate with the research centres near of the University of Miskolc. The university with about 250 years tradition focused its activities on the demands of heavy industry but the 3 technological faculties (mining, metallurgy and mechanics) there are also faculties of economics, law and arts. The university operates several independent research institutes in the sciences, which support big or small and medium sized enterprises as well in research and technology transfer.

Network of incubator houses was founded in that sub-programme. Incubator houses offer technical and administrative services for start-up enterprises to reduce the financial risks in the starting phase.

4. Creation of an integrated sub-regional system for economic development

In this sub-programme new offices for sub-regional development were established. These sub-regional offices can elaborate development programmes for smaller areas and achieve sub-regional resources. Sub-regional offices can effectively manage various local programmes and co-operate with local enterprises and self-government authorities. The offices operate only with 2-3 employees and are local information and teaching centres in the regional development process.

5. Influencing macro-economic circumstances

The sub-programme aims at modification of existing legal and financial regulations. The decentralisation of governmental funds realised the modification of several financial laws. The investment incentives required modification of tax regulations.

6. Training

The objective of this sub-programme is to harmonise the educational structure with economic demands. It consists management training actions and the training of business consultants and financial experts.

7. Measures for special groups

The sub-programme provides opportunities for unemployed workers especially in mining or heavy industry. The training actions for former miners or steel workers enable them to re-enter the labour market or to become entrepreneurs.

Subsidised employment opportunities enable special groups e.g. young graduates to find job. For long-term unemployment groups special community works were organised as environmental and landscape rehabilitation or local infrastructure projects.

Special programmes were needed for long-term unemployment groups with low or no level of education. These are special ethnic minorities (gypsies) or underdeveloped rural areas or small villages in the border region of the county. These special agricultural programmes enable these special groups to cultivate state-owned farm territories as self- or family-employed units. The programme has offered some positive experience in the recent years.

The sub-programme built up a network for so called village caretakers. The village caretakers operated in small villages, which suffered from a lack of basic services. The village caretakers provided access to the basic services and helped to revitalise the external and internal relationships in the communities.

8. Physical conditions of economic development

This sub-programme targets the development of the state-owned infrastructure. The improvement of the North-East region in Hungary required the extension of the M3 motorway. The lack of a direct motorway connection to Budapest hindered the influx of foreign capital investment in the county. The construction of the M3 motorway will be finished by 2002 and it will create new employment opportunities in the region.

The improving of the internal road connections (mainly the extension of the overloaded road 26 with 2 new lanes in the Sajó-river valley) and the reconstruction of the main railway connections are also of great importance.

The county suffers from the lack of a commercial airport, although the - currently unused-former Soviet military airport is situated in the region. The sub-programme requested a feasibility study of the commercial airport but other measures have not been carried out.

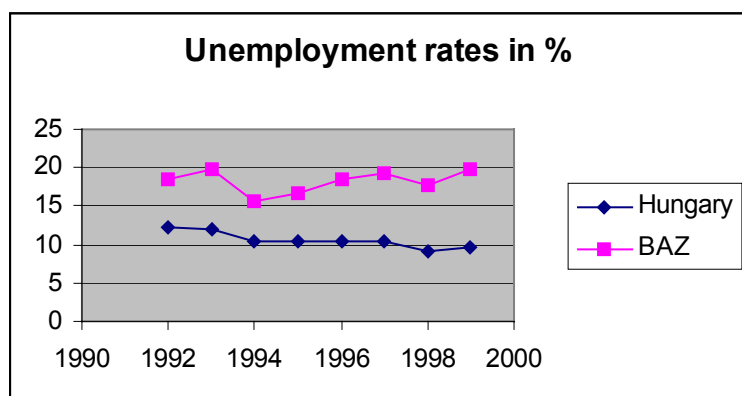
The importance of traffic infrastructure couldn't neglect the challenge of the environmental situation of the area. The Sajó-river valley is enormously polluted. Next to the valley are situated valuable nature reserve areas. That makes it very important to enhance environmental protection and to assess the sources of pollution and set up a continuous monitoring system. With the dramatic drop of the traditional heavy industry in the area, the pollution sources were radically decreased. Disadvantages are in the wastewater treatment and in the communal and dangerous industrial waste treatment.

The contradictory character of the transition process

The success of the Integrated Strategic Development Programme has a contradictory character.

The population of the county decreased from 756 thousand in 1990 to 730 thousand in 1999. The natural growth of the population is -3,2 and the migration difference is -2,8 per thousand inhabitants.

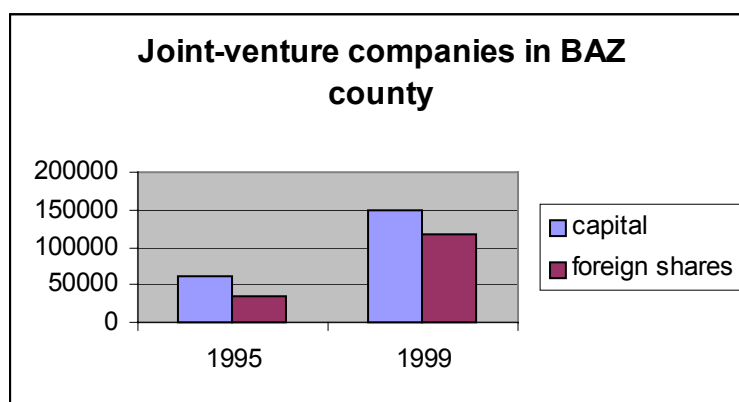
The last GDP per capita figure is 678 thousand HUF, which is 68% of the country's average. The chart below shows that the unemployment rates are about two times higher than the figures for Hungary, as a while the figures after 1995 increasing for BAZ county while they were decreasing for the country.



The sectoral structure of the county's economy is has become healthier in recent years. The one-sided heavy industry oriented character is less dramatic. The rate of the industrial

employment decreased from 40,6% in 1993 to 35,6% in 1996. The employment in the service sector increased in the same period from 49,8% to 56,1%. The weight of agricultural employment is less than 5% in 1999 and this figure meets the requirements of a post-industrial economy.

Important indexes of the attractiveness of a region are the figures related to the joint ventures with foreign investors. Hungary has, in the Eastern European region, an important place in international investments. Most of the international investments are located in the Trans-Danubian region. After the mid-1990's more and more western investors decided for Eastern Hungary lured by to the cheaper wages and the smaller distance to the Eastern European markets. The number of joint ventures increased in BAZ County in the period of 1995-1999 from 281 to 364, which means an increase of 29,5%. The capital of the joint venture companies increased in the same period by 142% and the share of the foreign investors by 228%. The chart 2 shows the enormous increase of the above-mentioned figures.



Conclusion

The Integrated Strategic Development Programme for BAZ County was the first step in the region to connect crisis management and initiate regional development. The programme analysed the county's starting situation and selected 3 different types of areas. The programme realised the connection of the problems in the industrial crisis areas and the other areas and integrated local, regional and governmental measures and different financial opportunities at county level. The realisation of different actions in 8 sub-programmes initiated the development in the post-industrial economic structure and enhanced the attractiveness of the county for international investors. The heavy-industrial orientation of the region could be eliminated in the second half of the 1990's. The main economic indicators, GDP per capita and employment rate couldn't reach the country's average and have contributed to the backwardness of the region.

After the election in 1998, the county's government took on a right-wing character and the development process got other priorities. For the period of 2000-2006 was a new Regional Development Plan elaborated. The plan aims to end the backwardness of the county with forced development in the economy. The new priorities are innovation-oriented renewal with an orientation towards export and support of research and development activities, mainly in small and medium sized enterprises. New field of the economic activities is the development of environmental protection related industries. The development of regional cohesion will be carried out with agricultural and infrastructure projects which will be supported from EU funds (SAPARD and ISPA). The transition to a post-industrialised economy will go on in the

county in the future but the further results of that process can be analysed only in several years.

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